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TAGS: ENRG ECON EINV KNNP EPET PGOV PREL JO
SUBJECT: JORDAN'S ENERGY STRATEGY: MUCH TALK, LITTLE ACTION

REF: A. AMMAN 1633
¶B. AMMAN 825
¶C. AMMAN 433
¶D. AMMAN 362
¶E. 08 AMMAN 2753
¶F. 08 AMMAN 2421
¶G. 08 AMMAN 1567
¶H. 08 AMMAN 1263
¶I. 08 AMMAN 1161
¶J. 08 AMMAN 233

Classified By: Ambassador R. Stephen Beecroft
For Reasons 1.4 (b) and (d)

¶1. (S/NF) Summary: The Jordanian government points to the energy sector as a main source of its economic woes. With no oil and limited natural resources, Jordan imports over 96% of its energy needs. Given significant rises in energy demand in Jordan over the last few years, the Government of Jordan (GOJ) has realized that future economic growth will be hindered if Jordan lacks the energy to fuel development. In December 2007, the GOJ released a new national energy strategy to reduce dependency on foreign oil by developing indigenous energy sources, particularly oil shale, natural gas, renewable energy, and nuclear power (ref J). Almost two years later, the GOJ maintains that plans are on track to implement this strategy, but in fact very little tangible progress is evident. A massive new energy law, criticized by many, has not yet been approved by Parliament, hindering the establishment of a regulatory framework to open up the petroleum sector to free market competition. Oil shale projects have been put on hold to explore for uranium. After years of negotiations with international firms, no contracts have been signed yet to develop Jordan's Risha natural gas field. Despite political interest in renewables, none of the large scale projects envisioned in wind and solar energy have gotten off the ground. The development of Jordan's nuclear energy program has probably moved forward at the fastest pace, but this area also suffers from the lack of a commercial strategic approach and ambitious plans for multiple reactors have not yet been supported by more in-depth feasibility studies on site selection, water, environment, and seismology. Jordan's energy sector in general remains plagued by a lack of transparency that creates an inhospitable business climate. End Summary.

Draft Energy Law: Bigger than the Koran

¶2. (S/NF) New energy plans require new energy legislation. That legislation, however, has gone through several iterations over the past two years and remains in draft form. What used to be separate laws regulating various parts of

the energy sector, such as renewable energy, electricity, and petroleum, has now become one large law that the CEO of Jordan's refinery Ahmed Refai described as "bigger than the Koran." Secretary General of the Ministry of Energy and Mineral Resources (MEMR) Farouq Hiyari explained that, in light of Parliament's aversion to creating new government commissions, the GOJ had to lump the laws together to create one single regulatory commission for all the different energy areas. Most energy sector interlocutors have said that MEMR made a mistake taking this approach, particularly by not keeping the Electricity Regulatory Commission separate. As Director General of the Natural Resources Authority (NRA) Maher Hijazin argued, an electricity commission has a different function of regulating quality and price and unlike the other commissions, does not deal with the regulatory environment for investors. Furthermore, energy sector stakeholders have criticized MEMR for poor coordination with the various agencies before submitting the draft legislation to Parliament's Energy Committee for review. Both Refai and Ahmed Hiyasat, Director General of the National Electric Power Company (NEPCO), recounted similar tales of being called into Parliament and having to admit to parliamentarians that they had not seen the conglomerated draft law previously.

¶3. (S/NF) Despite having worked with the Energy Committee on the draft legislation for weeks, the GOJ did not place the energy law on the agenda for Parliament's current extraordinary session because of "competing priorities" according to Hiyari and Prime Minister Nader al-Dahabi. This came as a surprise to many given GOJ rhetoric on the urgent

need to develop the energy sector. Hijazin, one of the initial architects of the law, lamented this decision, noting that despite its flaws, the draft law represented a step in the right direction. He feared that the consultation process with the Energy Committee would need to start again from the beginning when parliament reconvened in the fall. (Note: The fall parliamentary session would likely include a reshuffling of committee memberships, which could take many bills back to the beginning of the committee review stage, further delaying passage of key legislation. End note.)

Trying to Move Ahead with Restructuring the Oil Industry
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¶4. (S/NF) The draft energy law provides the regulatory framework for opening up the petroleum sector. In March 2008, the 50-year monopoly concession by the Jordan Petroleum Refinery Corporation (JPRC) came to an end but absent a new energy law, the GOJ has kept JPRC as the sole operator through a new service agreement that has already been extended several times through December 2009. Instead of waiting for a new law to be passed, MEMR decided to proceed with issuing tenders to establish four new marketing companies and one logistics company that would import and distribute fuel products to retailers per the National Strategy (ref I). Hiyari told EconOffs on July 12 that MEMR now has a short-list and would award contracts by September 2009, with the goal of the companies beginning operations in early 2010. He believed that any company concerns over the absence of legislation would be appeased through provisions in license agreements that corresponded to articles in the draft law. JPRC's CEO Ahmed Refai told EmbOffs on July 22 that MEMR's goal to start the new marketing and logistics system in early 2010 was "overly optimistic," given the lack of infrastructure such as storage sites and the continuing delay in adopting the new energy law. Refai also denied reports that the new system would change how fuel prices are determined and believed that the current interagency committee would continue setting prices based on average international market prices during the preceding 30 days and other costs, such as freight and handling (ref A).

¶5. (S/NF) The National Energy Strategy envisions that the

marketing companies will have the option of buying refined oil products from JPRC. JPRC's ability to meet future demand, however, depends on an upgrade and expansion project that will increase refining capacity from 100,000 bbl/day to 150,000 bbl/day, improve crude oil transportation by building a pipeline from Aqaba to the refinery in Zarqa, and enhance the quality of production. Since 2006, JPRC has been unsuccessfully looking for a strategic partner and the estimated cost of the expansion project, which has gone through several reconfigurations over the years, has steadily increased from $700 million to $1.3 billion to now $2.1 billion (ref C). Refai told EmbOffs on July 22 that a new consortium, which includes Technip of France and Deutsche Bank, submitted a proposal in July that is currently under review by JPRC and its consultant Citibank. The new proposal involves a 15-year "exclusivity" agreement for the JPRC and its partner, which would only need Cabinet approval unlike concession agreements which require parliamentary approval. Refai expects a decision on this proposal to emerge in two to three months. If it fails and no partnership agreement ever materializes, however, Refai said that it was a "false dream and unrealistic" to expect an increase in GOJ capital to JPRC and JPRC would likely become an importer and distributor of refined oil products.

¶6. (S/NF) Currently, JPRC imports most of its crude oil from the Saudi oil company ARAMCO which MEMR reported to press provides Jordan approximately three million barrels of crude oil a month delivered through Aqaba in an average of three shipments. The average crude oil imports from Iraq delivered to JPRC continue to stand at 10,000 barrels a day, which meets 10% of the Kingdom's needs (ref C). Hiyari said that the GOJ would like to increase the amount received from Iraq to 30,000 barrels a day, per an agreement signed in 2008, but Iraq has cited technical problems as an obstacle to fulfilling the agreement. He also confirmed that JPRC continues to complain about the poor quality of Iraqi oil, which needs to be mixed with Arabian light crude oil.

¶7. (S/NF) NRA issued a tender in 2009 for oil exploration within the northern and central regions of Jordan, but

Hijazin confirmed to EconOffs that there were few interested bidders. According to Hijazin, after Porosity Ltd. spent $24 million drilling two wells in the Dead Sea area and came up dry, the company decided to transfer back its 80% participating interest to TransGlobal Petroleum (TGP), which recently dropped the case it filed against the GOJ in the World Bank's International Centre for Settlement of Investment Disputes (ref H). Despite the previous investment dispute, the GOJ agreed to this transfer, but Hijazin said TGP still needed to deposit the tools of assignment required under the Production Sharing Agreement, such as a letter from the bank, which TGP was having difficulty obtaining.

Oil Shale Projects on Hold

¶8. (S/NF) With an estimated 40 billion tons of oil shale, Jordan hopes to have this resource make up 11% of its energy mix by 2015 and 14% by 2020. After concluding negotiations with several companies to conduct feasibility studies and other oil shale activities, however, the Jordanian government decided in August 2008 to put all oil shale contracts on hold for 18 months in order to first explore for uranium, which is closer to the surface above the oil shale (ref F). Hiyasat lamented that he had concluded negotiations in two days with the Estonian company Eesti Energia, which completed its feasibility study in May 2008, but the GOJ did not deliver what was promised and has missed opportunities. "You don't put up obstacles when looking for investors," he said. Nevertheless, Eesti came to Jordan in July 2009 to continue discussions with the NRA on exploring another area in Attarat.

¶9. (SBU) After three years of negotiations between the NRA and the Anglo-Dutch group Royal Dutch Shell, Jordan's Lower House of Parliament approved on July 15 an oil shale agreement with the Shell subsidiary Jordan Oil Shale Company B.V. (JOSCO) for deep oil shale exploration. JOSCO recently provided a brief to diplomatic missions in Jordan on Shell's unique in-situ conversion process and noted that this was a long-term process with the final investment decision not being made for another 20 years after appraisals, pilot testing, and designs are completed.

Renewable Energy Projects Slow to Start

¶10. (SBU) Renewable energy is supposed to comprise 7% of Jordan's energy mix by 2015 and 10% by 2020, according to the National Energy Strategy. Indeed, the Jordanians have shown great political interest in being part of renewable energy initiatives, such as International Renewable Energy Agency (ref C). Jordan also removed import and customs duties on renewable energy equipment which the National Energy Research Center (NERC) believes has spurred an increase in the sales of solar water heating equipment.

¶11. (S/NF) Practically speaking, however, few renewable energy projects have gotten off the ground yet. While the GOJ aims to have 600 MW in solar energy, Hiyari said that no significant solar projects have begun. He added that the GOJ did receive a $5-10 million proposal from a Spanish company for a small 1 MW project but the proposal still needed to be reviewed. Likewise, 600 MW in wind energy is also envisioned, but no contracts have been awarded yet. MEMR is still reviewing a revised proposal for the first 30 MW wind project for generating electricity, which would need Cabinet approval. A prequalification invite for the second 80-90 MW wind project was only issued three weeks ago, and data is still needed before finalizing the tender for a third 300 MW project. USAID assistance aims to help Jordan develop incentive-based regulations that will attract more private sector investments in generation of electricity from renewable sources.

Natural Gas - Largest Source for Generating Electricity
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¶12. (S/NF) The National Energy Strategy aims to enhance the use of natural gas, which fuels over 84% of the Kingdom's installed capacity for generating electricity, as a replacement for oil products. Hiyasat said that Jordan has secured 3.3 billion cubic meters (BCM) of natural gas from Egypt until 2012, which can be increased up to 4 BCM until

2021 (ref G). The GOJ is reportedly also still interested in obtaining natural gas from Iraq, but Hiyari said that the Iraqis have not engaged them on the issue.

¶13. (S/NF) The GOJ has so far failed to contract with a foreign investor to develop its own local source of natural gas in Risha field in eastern Jordan near the Iraq border. The U.S. company Anadarko ended up in protracted negotiations with the GOJ on Risha for several years, during which time suspicions arose that the GOJ was sharing the proposal with other companies, particularly British Petroleum (BP). After over two years of discussions, Prime Minister Dahabi announced at a public conference in February 2008 that the GOJ would issue an open tender for Risha, which came as a surprise to Anadarko. Anadarko resubmitted its proposal, along with BP which ended up winning the contract. The GOJ has since been in negotiations with BP to finalize their agreement, and several interlocutors in the energy sector have questioned why it has taken so long.

¶14. (S/NF) Hiyasat said that the plans to establish natural gas distribution grids in Amman, Zarqa, and Aqaba have gone nowhere so far (ref G). Plans to attract Independent Power

Producers generating electricity have also hit some obstacles. The first 360 MW IPP, built by the U.S. company AES and Mitsui, is now operational, although AES is now looking to sell its shares for financial reasons. The Korean company KEPCO won the second IPP tender but was also having difficulties meeting the deadline for submitting financial guarantees. The third IPP turned into a $400 million expansion project of Jordan's as-Samara power plant.

Nuclear Energy: Lack of Commercial Savvy

¶15. (U) The National Energy Strategy projected that nuclear energy would provide 6% percent of Jordan's energy by 2020. Now, the Jordan Atomic Energy Commission (JAEC) has reportedly told press that nuclear power has the potential to generate 60% of the Kingdom's energy by 2035. Such visions led the head of the parliamentary Energy Committee, Atif Tarawneh, to proclaim in the media that Jordan will not only be able to meet its energy needs in the next decade, but will also be able to export power to neighboring countries.

¶16. (S/NF) Comment: Nuclear energy is probably moving forward at the fastest pace of all the energy projects (refs B, E). Nevertheless, this area like the others suffers from the lack of a commercial strategic approach. JAEC is comprised mostly of nuclear physicists and scientists who lack political savvy and commercial expertise to deal with investors. U.S. companies, as well other third country diplomats in Jordan, have not been impressed by the JAEC's ability to provide needed information on its nuclear energy plans in a timely fashion and have called into question JAEC's sincere interest in their products when promising deals to companies across the globe. JAEC's ambitious plans for multiple reactors in Jordan still need to be supported through site feasibility studies that will examine water, environmental, and seismic issues. Additionally, even if Jordan could export electricity, it is not yet clear whether Jordan's neighbors would buy it.

¶17. (S/NF) Comment continued: Jordan developed its latest energy strategy during a politically-difficult time when the GOJ was lifting remaining fuel subsidies amidst skyrocketing oil prices worldwide. Since then, oil prices have come down, relieving some of the burden on GOJ agencies to show results fast. Nevertheless, all realize the need for Jordan to develop local energy resources sooner rather than later. Unfortunately the sector is plagued by a lack of clarity and lethargy, which has frustrated many U.S. firms. Despite Post's offers to distribute open tenders to U.S. companies through Foreign Commercial Service channels, it is rare that the GOJ takes advantage of such services, and there does not seem to be any systematic approach to the GOJ tendering process, which often seems to rely on back door, solicited proposals. Lack of leadership within MEMR, bureaucracy, and limited capacity may explain in part some of the delay in implementation of energy projects. Many energy interlocutors have claimed that the Ministry of Energy and Mineral Resources simply "doesn't know what it's doing." One conspiracy theory is that a few powerful individuals within Jordan, unknown to Post by name but purportedly including

some former Ministers, keep tight controls on the industry. Whatever the reason, the GOJ needs to understand that its actions, even if towards one company, end up creating the reputation of an inhospitable investment climate. This is something that Jordan cannot afford if it truly aims to have private industry play a strong role in developing a sector vital for its future economic growth.

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